PENNS WOODS BANCORP INC
Form 10-Q
November 08, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

ý Quarterly Report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

for the Quarterly Period Ended September 30, 2018.
o Transition report pursuant to Section 13 or 15 (d) of the Exchange Act

For the Transition Period from to .

No. 0-17077
(Commission File Number)

PENNS WOODS BANCORP, INC.
(Exact name of Registrant as specified in its charter)

PENNSYLVANIA	23-2226454
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

300 Market Street, P.O. Box 967 Williamsport, Pennsylvania	17703-0967
(Address of principal executive offices)	(Zip Code)

(570) 322-1111
Registrant’s telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES ý NO o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES ý NO o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company. or an emerging growth company. See the definition of “large accelerated filer”, “accelerated filer”, “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Small reporting company x

Emerging growth company o

If an emerging growth company, indicate by check mark if registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO ý

On November 1, 2018 there were 4,691,102 shares of the Registrant’s common stock outstanding.

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Part I. FINANCIAL INFORMATION
Item 1. Financial Statements
PENNS WOODS BANCORP, INC.
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

(In Thousands, Except Share Data)	September 30, 2018	December 31, 2017
ASSETS:		
Noninterest-bearing balances	$33,675	$25,692
Interest-bearing balances in other financial institutions	38,672	1,551
Total cash and cash equivalents	72,347	27,243
Investment debt securities, available for sale, at fair value	128,905	108,627
Investment equity securities, at fair value	1,902	2,516
Investment securities, trading	45	190
Restricted investment in bank stock, at fair value	17,834	13,332
Loans held for sale	3,727	1,196
Loans	1,369,105	1,246,614
Allowance for loan losses	(13,343)	(12,858)
Loans, net	1,355,762	1,233,756
Premises and equipment, net	27,361	27,386
Accrued interest receivable	5,353	4,321
Bank-owned life insurance	28,472	27,982
Goodwill	17,104	17,104
Intangibles	1,233	1,462
Deferred tax asset	5,310	4,388
Other assets	4,993	4,989
TOTAL ASSETS	$1,670,348	$1,474,492
LIABILITIES:		
Interest-bearing deposits	$897,366	$843,004
Noninterest-bearing deposits	313,111	303,316
Total deposits	1,210,477	1,146,320
Short-term borrowings	164,465	100,748
Long-term borrowings	138,970	70,970
Accrued interest payable	1,051	502
Other liabilities	14,846	17,758
TOTAL LIABILITIES	1,529,809	1,336,298
SHAREHOLDERS’ EQUITY:		
Preferred stock, no par value, 3,000,000 shares authorized; no shares issued	—	—
Common stock, par value $8.33, 15,000,000 shares authorized; 5,011,063 and 5,009,339 shares issued; 4,690,913 and 4,689,189 outstanding	41,757	41,744
Additional paid-in capital	50,577	50,173
Retained earnings	67,802	63,364
Accumulated other comprehensive loss:		

Net unrealized loss on available for sale securities	(2,663)	(54)
Defined benefit plan	(4,820)	(4,920)
Treasury stock at cost, 320,150	(12,115)	(12,115)
TOTAL PENNS WOODS BANCORP, INC. SHAREHOLDERS' EQUITY	140,538	138,192
Non-controlling interest	1	2
TOTAL SHAREHOLDERS' EQUITY	140,539	138,194
TOTAL LIABILITIES AND SHAREHOLDERS’ EQUITY	$1,670,348	$1,474,492

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands, Except Per Share Data)	2018	2017	2018	2017
INTEREST AND DIVIDEND INCOME:				
Loans, including fees	$13,982	$11,906	$39,172	$33,642
Investment securities:				
Taxable	713	553	1,898	1,665
Tax-exempt	207	319	678	940
Dividend and other interest income	296	170	762	592
TOTAL INTEREST AND DIVIDEND INCOME	15,198	12,948	42,510	36,839
INTEREST EXPENSE:				
Deposits	1,659	1,058	4,371	2,968
Short-term borrowings	528	31	1,004	39
Long-term borrowings	756	407	2,024	1,220
TOTAL INTEREST EXPENSE	2,943	1,496	7,399	4,227
NET INTEREST INCOME	12,255	11,452	35,111	32,612
PROVISION FOR LOAN LOSSES	480	60	975	605
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,775	11,392	34,136	32,007
NON-INTEREST INCOME:				
Service charges	645	550	1,788	1,637
Net debt securities (losses) gains, available for sale	(22)	302	(17)	487
Net equity securities (losses)	(16)	—	(44)	—
Net securities gains (losses), trading	14	(4)	12	(2)
Bank-owned life insurance	165	166	496	499
Gain on sale of loans	398	455	1,053	1,316
Insurance commissions	85	109	266	399
Brokerage commissions	340	352	1,013	1,044
Debit card fees	359	514	1,065	1,450
Other	621	296	1,400	1,325
TOTAL NON-INTEREST INCOME	2,589	2,740	7,032	8,155
NON-INTEREST EXPENSE:				
Salaries and employee benefits	5,420	4,738	15,387	14,116
Occupancy	640	603	2,080	1,855
Furniture and equipment	780	816	2,328	2,129
Software amortization	208	235	504	750
Pennsylvania shares tax	278	228	833	696
Professional fees	459	560	1,674	1,816
Federal Deposit Insurance Corporation deposit insurance	237	194	639	514
Marketing	245	315	764	690
Intangible amortization	71	81	229	256
Other	1,343	1,796	4,037	4,792
TOTAL NON-INTEREST EXPENSE	9,681	9,566	28,475	27,614
INCOME BEFORE INCOME TAX PROVISION	4,683	4,566	12,693	12,548

INCOME TAX PROVISION	857	1,282	2,179	3,491
CONSOLIDATED NET INCOME	$3,826	$3,284	$10,514	$9,057
Less: Net loss attributable to noncontrolling interest	—	—	(1)	—
NET INCOME ATTRIBUTABLE TO PENNS WOODS BANCORP, INC.	$3,826	$3,284	$10,515	$9,057
EARNINGS PER SHARE - BASIC	$0.82	$0.70	$2.24	$1.92
EARNINGS PER SHARE - DILUTED	$0.82	$0.70	$2.24	$1.92
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	4,690,560	4,688,222	4,689,960	4,711,282
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	4,690,560	4,688,222	4,689,960	4,711,282
DIVIDENDS DECLARED PER SHARE	$0.47	$0.47	$1.41	$1.41

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2018	2017	2018	2017
Net Income	$3,826	$3,284	$10,515	$9,057
Other comprehensive (loss) income:				
Change in unrealized (loss) gain on available for sale securities	(789)	437	(2,641)	1,565
Tax effect	166	(150)	556	(532)
Net realized loss (gain) on available for sale securities included in net income	22	(302)	17	(487)
Tax effect	(5)	104	(4)	166
Amortization of unrecognized pension gain	41	45	125	129
Tax effect	(8)	(15)	(25)	(43)
Total other comprehensive (loss) income	(573)	119	(1,972)	798
Comprehensive income	$3,253	$3,403	$8,543	$9,855

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

Three months ended:

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, June 30, 2018	5,010,535	$41,753	$50,225	$66,181	$(6,910)	$(12,115)	$ 1	$139,135
Net income				3,826				3,826
Other comprehensive loss					(573)			(573)
Stock-based compensation			333					333
Dividends declared ($0.47 per share)				(2,205)				(2,205)
Common shares issued for employee stock purchase plan	528	4	19					23
Balance, September 30, 2018	5,011,063	$41,757	$50,577	$67,802	$(7,483)	$(12,115)	$ 1	$140,539

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, June 30, 2017	5,008,192	$41,735	$50,117	$62,952	$(4,249)	$(12,115)	$ —	$138,440
Net income				3,284				3,284
Other comprehensive income					119			119
Stock-based compensation			7					7
Dividends declared ($0.47 per share)				(2,203)				(2,203)
Common shares issued for employee stock purchase plan	528	4	18					22
Balance, September 30, 2017	5,008,720	$41,739	$50,142	$64,033	$(4,130)	$(12,115)	$ —	$139,669

See accompanying notes to the unaudited consolidated financial statements.

PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)

Nine months ended:

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2017	5,009,339	$41,744	$50,173	$63,364	$(4,974)	$(12,115)	$2	$138,194
Net income				10,515			(1)	10,514
Adoption of ASU 2016-01				537	(537)			—
Other comprehensive loss					(1,972)			(1,972)
Stock-based compensation			345					345
Dividends declared ($1.41 per share)				(6,614)				(6,614)
Common shares issued for employee stock purchase plan	1,724	13	59					72
Balance, September 30, 2018	5,011,063	$41,757	$50,577	$67,802	$(7,483)	$(12,115)	$1	$140,539

(In Thousands, Except Per Share Data)	COMMON STOCK SHARES	COMMON STOCK AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE LOSS	TREASURY STOCK	NON-CONTROLLING INTEREST	TOTAL SHAREHOLDERS' EQUITY
Balance, December 31, 2016	5,007,109	$41,726	$50,075	$61,610	$(4,928)	$(10,234)	$ —	$138,249
Net income				9,057				9,057
Other comprehensive income					798			798
Stock-based compensation			14					14
Dividends declared ($1.41 per share)				(6,634)				(6,634)
Common shares issued for employee stock purchase plan	1,611	13	53					66
Purchase of treasury stock (47,698 shares)						(1,881)		(1,881)
Balance, September 30, 2017	5,008,720	$41,739	$50,142	$64,033	$(4,130)	$(12,115)	$ —	$139,669

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended September 30,	
(In Thousands)	2018	2017
OPERATING ACTIVITIES:		
Net Income	$10,515	$9,057
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,907	1,979
Amortization of intangible assets	229	256
Provision for loan losses	975	605
Accretion and amortization of investment security discounts and premiums	591	688
Net securities losses (gains), available for sale	17	(487)
Originations of loans held for sale	(39,979)	(41,503)
Proceeds of loans held for sale	38,501	43,038
Gain on sale of loans	(1,053)	(1,316)
Net equity securities losses	44	—
Net securities (gains) losses, trading	(12)	2
Proceeds from the sale of trading securities	466	332
Purchases of trading securities	(309)	(486)
Earnings on bank-owned life insurance	(496)	(499)
(Decrease) increase in deferred tax asset	(370)	46
Other, net	(953)	(4,361)
Net cash provided by operating activities	10,073	7,351
INVESTING ACTIVITIES:		
Proceeds from sales of available for sale securities	14,528	15,443
Proceeds from calls and maturities of available for sale securities	6,160	7,198
Purchases of available for sale securities	(45,473)	(18,434)
Net increase in loans	(123,857)	(97,109)
Acquisition of premises and equipment	(1,374)	(2,849)
Proceeds from the sale of foreclosed assets	253	958
Purchase of bank-owned life insurance	(36)	(34)
Proceeds from redemption of regulatory stock	12,073	4,844
Purchases of regulatory stock	(16,575)	(6,994)
Net cash used for investing activities	(154,301)	(96,977)
FINANCING ACTIVITIES:		
Net increase in interest-bearing deposits	54,362	51,229
Net increase in noninterest-bearing deposits	9,795	7,553
Proceeds from long-term borrowings	80,000	30,000
Repayment of long-term borrowings	(12,000)	(35,000)
Net increase in short-term borrowings	63,717	28,355
Dividends paid	(6,614)	(6,634)
Issuance of common stock	72	80
Purchases of treasury stock	—	(1,881)
Net cash provided by financing activities	189,332	73,702
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	45,104	(15,924)

CASH AND CASH EQUIVALENTS, BEGINNING	27,243	43,671		
CASH AND CASH EQUIVALENTS, ENDING	$72,347	$27,747		
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Interest paid			$6,850	$4,199
Income taxes paid			1,925	3,950
Transfer of loans to foreclosed real estate			876	508
Transfer due to adoption of ASU 2016-01, equity securities fair value adjust, reclassification from AOCI to Retained Earnings, net of tax			537	—

See accompanying notes to the unaudited consolidated financial statements.

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PENNS WOODS BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Basis of Presentation

The consolidated financial statements include the accounts of Penns Woods Bancorp, Inc. (the “Company”) and its wholly-owned subsidiaries: Woods Investment Company, Inc., Woods Real Estate Development Company, Inc., Luzerne Bank, and Jersey Shore State Bank (Jersey Shore State Bank and Luzerne Bank are referred to together as the “Banks”) and Jersey Shore State Bank’s wholly-owned subsidiary, The M Group, Inc. D/B/A The Comprehensive Financial Group (“The M Group”). The Company also owns a controlling interest in United Insurance Solutions, LLC. All significant inter-company balances and transactions have been eliminated in the consolidation.

The interim financial statements are unaudited, but in the opinion of management reflect all adjustments necessary for the fair presentation of results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017.

Tax Cuts and Jobs Act

Public law No. 115-97, commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), enacted on December 22, 2017, reduced the U.S. federal corporate tax rate from 34% to 21% effective January 1, 2018. Also on December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provides guidance on accounting for tax effects of the Tax Act. SAB 118 provides a measurement period of up to one year from the enactment date to complete the accounting. Any adjustments during this measurement period will be included in net earnings from continuing operations as an adjustment to income tax expense in the reporting period when such adjustments are determined. Based on the information available and current interpretation of the rules, the Company estimated the impact of the reduction in the corporate tax rate and remeasurement of certain deferred tax assets and liabilities. The amount recorded in the fourth quarter of 2017 related to the remeasurement of the Company's deferred tax balance resulted in additional income tax expense of $2.7 million.

Newly Adopted Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (a new revenue recognition standard). The Update’s core principle is that a company will recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, this Update specifies the accounting for certain costs to obtain or fulfill a contract with a customer and expands disclosure requirements for revenue recognition. This Update is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Upon adoption on January 1, 2018, we have included the related new disclosure requirements in Note 13.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This Update applies to all entities that hold financial assets or owe financial liabilities and is intended to provide more useful information on the recognition, measurement, presentation, and disclosure of financial instruments. Among other things, this Update (a) requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (d) eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (e) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (f) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (g) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. For all other entities, including not-for-profit entities and employee benefit plans within the scope of Topics 960 through 965 on plan accounting, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019.

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All entities that are not public business entities may adopt the amendments in this Update earlier as of the fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Upon adoption on January 1, 2018, the Company made a one-time cumulative effect adjustment from accumulated other comprehensive income to retained earnings of $537,000. The net effect was an increase to retained earnings.

In August 2018, the Securities and Exchange Commission issued Final Rule Release No. 33-10532 - "Disclosure Update and Simplification." The rule changes implemented by the Release amend, effective November 5, 2018, various SEC disclosure requirements that have been determined to be redundant, duplicative, overlapping, outdated, or superseded. The changes are generally expected to reduce or eliminate certain disclosures; however, the amendments did expand interim period disclosure requirements related to changes in shareholders' equity. The presentation of the Statement of Changes in Shareholders' Equity contained herein for the three and nine months ended September 30, 2018 includes the disclosures required by the Release.

The accounting policies followed in the presentation of interim financial results are the same as those followed on an annual basis. These policies are presented on pages 40 through 50 of the Form 10-K for the year ended December 31, 2017.

In reference to the attached financial statements, all adjustments are of a normal recurring nature pursuant to Rule 10-01(b) (8) of Regulation S-X.

Note 2. Accumulated Other Comprehensive Loss

The changes in accumulated other comprehensive loss by component shown net of tax and parenthesis indicating debits, as of September 30, 2018 and 2017 were as follows:

(In Thousands)	Three Months Ended September 30, 2018			Three Months Ended September 30, 2017		
	Net Unrealized Loss on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total
Beginning balance	$(2,057)	$(4,853)	$(6,910)	$(16)	$(4,233)	$(4,249)
Other comprehensive (loss) gain before reclassifications	(623)	—	(623)	287	—	287
Amounts reclassified from accumulated other comprehensive loss	17	33	50	(198)	30	(168)
Net current-period other comprehensive (loss) income	(606)	33	(573)	89	30	119
Ending balance	$(2,663)	$(4,820)	$(7,483)	$73	$(4,203)	$(4,130)

(In Thousands)	Nine Months Ended September 30, 2018			Nine Months Ended September 30, 2017		
	Net Unrealized Loss on Available for Sale Securities	Defined Benefit Plan	Total	Net Unrealized Gain (Loss) on Available for Sale Securities	Defined Benefit Plan	Total
Beginning balance	$(54)	$(4,920)	$(4,974)	$(639)	$(4,289)	$(4,928)
Other comprehensive (loss) gain before reclassifications	(2,085)	—	(2,085)	1,033	—	1,033
Amounts reclassified from accumulated other comprehensive loss	13	100	113	(321)	86	(235)

Net current-period other comprehensive (loss) income	(2,072)	100	(1,972)	712	86	798
Reclassification from adoption of 2016-01	(537)	—	(537)	—	—	—
Ending balance	$(2,663)	$(4,820)	$(7,483)	$73	$(4,203)	$(4,130)

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The reclassifications out of accumulated other comprehensive loss shown, net of tax and parenthesis indicating debits to net income, as of September 30, 2018 and 2017 were as follows:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Affected Line Item in the Consolidated Statement of Income
Net unrealized (loss) gain on available for sale securities	$ (22)	$ 302	Net securities (losses) gains, available for sale
Income tax effect	5	(104)	Income tax provision
Total reclassifications for the period	$ (17)	$ 198	
Net unrecognized pension costs	$ (41)	$ (45)	Salaries and employee benefits
Income tax effect	8	15	Income tax provision
Total reclassifications for the period	$ (33)	$ (30)	

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss Nine months ended September 30, 2018	Nine months ended September 30, 2017	Affected Line Item in the Consolidated Statement of Income
Net unrealized (loss) gain on available for sale securities	$ (17)	$ 487	Net securities gains, available for sale
Income tax effect	4	(166)	Income tax provision
Total reclassifications for the period	$ (13)	$ 321	
Net unrecognized pension costs	$ (125)	$ (129)	Salaries and employee benefits
Income tax effect	25	43	Income tax provision
Total reclassifications for the period	$ (100)	$ (86)	

Note 3. Recent Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases on the balance sheet. A lessee should recognize in the statement of financial position a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. A short-term lease is defined as one in which (a) the lease term is 12 months or less and (b) there is not an option to purchase the underlying asset that the lessee is reasonably certain to exercise. For short-term leases, lessees may elect to recognize lease payments over the lease term on a straight-line basis. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those years. For all other entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. The amendments should be applied at the beginning of the earliest period presented using a modified retrospective approach with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently assessing the practical expedients it may elect at adoption, but does not anticipate the amendments will have a significant impact on the financial statements. Based on the Company’s preliminary analysis of its current portfolio, the impact to the Company’s balance sheet is estimated to result in less than a 1 percent increase in assets and liabilities. The Company also anticipates additional disclosures to be provided at adoption.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, which changes the impairment model for most financial assets. This Update is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the Update is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be effected for the measurement of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. ASU 2016-13 is effective for annual and interim periods beginning after December 15, 2019, and early adoption is permitted for annual and interim periods beginning after December 15, 2018. With certain exceptions, transition to the new requirements will be through a cumulative effect adjustment to opening retained earnings as of the beginning of the first reporting period in which the guidance is adopted. We expect to recognize a one-time cumulative effect adjustment to the allowance for loan losses as of the beginning of the first reporting period in which the new standard is effective, but cannot yet determine the magnitude of any such one-time adjustment or the overall impact of the new guidance on the consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, the FASB eliminated Step 2 from the goodwill impairment test. In computing the implied fair value

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of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under the amendments in this Update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting units fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. A public business entity that is a U.S. Securities and Exchange Commission (SEC) filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. A public business entity that is not an SEC filer should adopt the amendments in this Update for its annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2020. All other entities, including not-for-profit entities, that are adopting the amendments in this Update should do so for their annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2021. This Update is not expected to have a significant impact on the Company's financial statements.

In February 2017, the FASB issued ASU 2017-06, Plan Accounting: Defined Benefit Pension Plans (Topic 960), Defined Contribution Pension Plans (Topic 962), and Health and Welfare Benefit Plans (Topic 965). This Update relates primarily to the reporting by an employee benefit plan for its interest in a master trust, which is a trust for which a regulated financial institution serves as a trustee or custodian and in which assets of more than one plan sponsored by a single employer or by a group of employers under common control are held. For each master trust in which a plan holds an interest, the amendments in this Update require a plan's interest in that master trust and any change in that interest to be presented in separate line items in the statement of net assets available for benefits and in the statement of changes in net assets available for benefits, respectively. The amendments in this Update remove the requirement to disclose the percentage interest in the master trust for plans with divided interests and require that all plans disclose the dollar amount of their interest in each of those general types of investments, which supplements the existing requirement to disclose the master trusts balances in each general type of investments. There are also increased disclosure requirements for investments in master trusts. The amendments in this Update are effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. This Update is not expected to have a significant impact on the Company's financial statements.
In March 2017, the FASB issued ASU 2017-08, Receivables - Nonrefundable Fees and Other Costs (Subtopic 310-20). The amendments in this Update shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. For public business entities, the amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity should apply the amendments in this Update on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. Additionally, in the period of adoption, an entity should provide disclosures about a change in accounting principle. This Update is not expected to have a significant impact on the Company's financial statements.

In July 2017, the FASB issued ASU 2017-11, Earnings Per Share (Topic 260), Distinguishing Liabilities from Equity (Topic 480), and Derivative and Hedging (Topic 815). The amendments in Part I of this Update change the classification analysis of certain equity-linked financial instruments (or embedded features) with down-round features. When determining whether certain financial instruments should be classified as liabilities or equity instruments, a down-round feature no longer precludes equity classification when assessing whether the instrument is indexed to an entity’s own stock. The amendments also clarify existing disclosure requirements for equity-classified instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down-round feature. For freestanding equity classified financial instruments, the amendments require entities that present earnings per share (EPS) in accordance with Topic 260 to recognize the effect of the down-round feature when it is triggered. That effect is treated as a dividend and as a reduction of income available to common shareholders in basic EPS. Convertible instruments with embedded conversion options that have down- round features are now subject to the specialized guidance for contingent beneficial conversion features (in Subtopic 470-20, Debt-Debt with Conversion and Other Options), including related EPS guidance (in Topic 260). The amendments in Part II of this Update recharacterize the indefinite deferral of certain provisions of Topic 480 that now are presented as pending content in the Accounting Standards Codification, to a scope exception. Those amendments do not have an accounting effect. For public business entities, the amendments in Part I of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. For all other entities, the amendments in Part I of this Update are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all entities, including adoption in an interim period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in Part I of this Update should be applied either retrospectively to outstanding financial instruments with a down-round feature by means of a cumulative-effect adjustment to the statement of financial position as of the beginning of the first fiscal year and interim period(s) in which the pending content that links to this paragraph is effective or retrospectively to outstanding financial instruments with a down-round feature for each prior reporting period presented in accordance with the guidance on accounting changes in paragraphs 250-10-45-5 through 45-10. The amendments in Part II of this Update do not require any transition guidance because those amendments do not have an accounting effect. This Update is not expected to have a significant impact on the Company’s financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 850), the objective of which is to improve the financial reporting of hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. In addition, the amendments in this Update make certain targeted improvements to simplify the application and disclosure of the hedge accounting guidance in current general accepted accounting principles. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods beginning after December 15, 2020. Early application is permitted in any period after issuance. For cash flow and net investment hedges existing at the date of adoption, an entity should apply a cumulative-effect adjustment related to eliminating the separate measurement of ineffectiveness to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that an entity adopts the amendments in this Update. The amended presentation and disclosure guidance is required only prospectively. This Update is not expected to have a significant impact on the Company’s financial statements.

In January 2018, the FASB issued ASU 2018-01, Leases (Topic 842), which provides an optional transition practical expedient to not evaluate under Topic 842 existing or expired land easements that were not previously accounted for as leases under the current lease guidance in Topic 840. An entity that elects this practical expedient should evaluate new or modified land easements under Topic 842 beginning at the date the entity adopts Topic 842; otherwise, an entity should evaluate all existing or expired land easements in connection with the adoption of the new lease requirements in Topic 842 to assess whether they meet the definition of a lease. The effective date and transition requirements for the amendments are the same as the effective date and transition requirements in ASU 2016-02. This Update is not expected to have a significant impact on the Company’s financial statements.

In February 2018, the FASB issued ASU 2018-03, Technical Corrections and Improvements to Financial Instruments-Overall (Subtopic 825-10), to clarify certain aspects of the guidance issued in ASU 2016-01. (1) An entity measuring an equity security using the measurement alternative may change its measurement approach to a fair value method in accordance with Topic 820, Fair Value Measurement, through an irrevocable election that would apply to that security and all identical or similar investments of the same issuer. Once an entity makes this election, the entity should measure all future purchases of identical or similar investments of the same issuer using a fair value method in accordance with Topic 820. (2) Adjustments made under the measurement alternative are intended to reflect the fair value of the security as of the date that the observable transaction for a similar security took place. (3) Remeasuring the entire value of forward contracts and purchased options is required when observable transactions occur on the underlying equity securities. (4) When the fair value option is elected for a financial liability, the guidance in paragraph 825-10-45-5 should be applied, regardless of whether the fair value option was elected under either Subtopic 815-15, Derivatives and Hedging-Embedded Derivatives, or 825-10, Financial Instruments-Overall. (5) Financial liabilities for which the fair value option is elected, the amount of change in fair value that relates to the instrument specific credit risk should first be measured in the currency of denomination when presented separately from the total change in fair value of the financial liability. Then, both components of the change in the fair value of the liability should be remeasured into the functional currency of the reporting entity using end-of-period spot rates.

(6) The prospective transition approach for equity securities without a readily determinable fair value in the amendments in Update 2016-01 is meant only for instances in which the measurement alternative is applied. An insurance entity subject to the guidance in Topic 944, Financial Services- Insurance, should apply a prospective transition method when applying the amendments related to equity securities without readily determinable fair values. An insurance entity should apply the selected prospective transition method consistently to the entity’s entire population of equity securities for which the measurement alternative is elected. For public business entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Public business entities with fiscal years beginning between December 15, 2017, and June 15, 2018, are not required to adopt these amendments until the interim period beginning after June 15, 2018, and public business entities with fiscal years beginning between June 15, 2018, and December 15, 2018, are not required to adopt these amendments before adopting the amendments in Update 2016-01. For all other entities, the effective date is the same as the effective date in Update 2016-01. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted Update 2016-01. The Company is currently evaluating the impact the adoption of the standard will have on the Company’s financial position or results of operations.

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In March 2018, the FASB issued ASU 2018-04, Investments - Debt Securities (Topic 320) and Regulated Operations (Topic 980) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273, ASU 2018-04 supersedes various SEC paragraphs and adds an SEC paragraph pursuant to the issuance of Staff Accounting Bulletin No. 117.

In July 2018, the FASB issued ASU 2018-09, Codification Improvements, represents changes to clarify, correct errors in, or make minor improvements to the Codification. The amendments make the Codification easier to understand and easier to apply by eliminating inconsistencies and providing clarifications. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments do not require transition guidance and will be effective upon issuance of this ASU. However, many of the amendments in this ASU do have transition guidance with effective dates for annual periods beginning after December 15, 2018, for public business entities. This Update is not expected to have a significant impact on the Company’s financial statements.

In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, represents changes to clarify, correct errors in, or make minor improvements to the Codification. The amendments in this ASU affect the amendments in ASU 2016-02, which are not yet effective, but for which early adoption upon issuance is permitted. For entities that early adopted Topic 842, the amendments are effective upon issuance of this ASU, and the transition requirements are the same as those in Topic 842. For entities that have not adopted Topic 842, the effective date and transition requirements will be the same as the effective date and transition requirements in Topic 842. This Update is not expected to have a significant impact on the Company’s financial statements.

In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842): Targeted Improvements. This Update provides another transition method which allows entities to initially apply ASC 842 at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Entities that elect this approach should report comparative periods in accordance with ASC 840, Leases. In addition, this Update provides a practical expedient under which lessors may elect, by class of underlying assets, to not separate nonlease components from the associated lease component, similar to the expedient provided for lessees. However, the lessor practical expedient is limited to circumstances in which the nonlease component or components otherwise would be accounted for under the new revenue guidance and both (a) the timing and pattern of transfer are the same for the nonlease component(s) and associated lease component and (b) the lease component, if accounted for separately, would be classified as an operating lease. If the nonlease component or components associated with the lease component are the predominant component of the combined component, an entity should account for the combined component in accordance with ASC 606, Revenue from Contracts with Customers. Otherwise, the entity should account for the combined component as an operating lease in accordance with ASC 842. If a lessor elects the practical expedient, certain disclosures are required. This Update is effective for public business entities for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. This Update is not expected to have a significant impact on the Company’s financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes the Disclosure Requirements for Fair Value Measurements. The Update removes the requirement to disclose the amount of and reasons for transfers between Level I and Level II of the fair value hierarchy; the policy for timing of transfers between levels; and the valuation processes for Level III fair value measurements. The Update requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level III fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level III fair value measurements. This Update is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. This Update is not expected to have a significant impact on the Company’s financial statements.

In August 2018, the FASB issued ASU 2018-14, Compensation - Retirement Benefits (Topic 715-20). This Update amends ASC 715 to add, remove and clarify disclosure requirements related to defined benefit pension and other postretirement plans. The Update eliminates the requirement to disclose the amounts in accumulated other comprehensive income expected to be recognized as part of net periodic benefit cost over the next year. The Update also removes the disclosure requirements for the effects of a one-percentage-point change on the assumed health care costs and the effect of this change in rates on service cost, interest cost and the benefit obligation for postretirement health care benefits. This Update is effective for public business entities for fiscal years ending after December 15, 2020, and must be applied on a retrospective basis. For all other entities, this Update is effective for fiscal years ending after December 15, 2021. This Update is not expected to have a significant impact on the Company’s financial statements.

In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40). This Update addresses customers’ accounting for implementation costs incurred in a cloud computing arrangement that is a service contract and also adds certain disclosure requirements related to implementation costs incurred for internal-use software and cloud

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computing arrangements. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This Update is effective for public business entities for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, with early adoption permitted. For all other entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The amendments in this Update can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. This Update is not expected to have a significant impact on the Company's financial statements.

Note 4. Per Share Data

There are no convertible securities which would affect the denominator in calculating basic and dilutive earnings per share. There were a total of 263,700 stock options, with an average exercise price of $45.11, outstanding on September 30, 2018. All options were excluded, on a weighted average basis, in the computation of diluted earnings per share for the period due to the average market price of common shares being $43.84 for the period. There were a total of 95,000 stock options outstanding for the same period end in 2017 that had an average exercise price of $43.64 and were excluded, on a weighted average basis, in the computation of diluted earnings per share because the quarterly average closing market price of common shares was $43.53 for the period. Net income as presented on the consolidated statement of income is used as the numerator. The following table sets forth the composition of the weighted average common shares (denominator) used in the basic and dilutive earnings per share computation.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Weighted average common shares issued	5,010,710	5,008,372	5,010,110	5,007,796
Weighted average treasury stock shares	(320,150)	(320,150)	(320,150)	(296,514)
Weighted average common shares outstanding - basic and diluted	4,690,560	4,688,222	4,689,960	4,711,282

Note 5. Investment Securities

The amortized cost, gross unrealized gains and losses, and fair values of our investment securities portfolio at September 30, 2018 and December 31, 2017 are as follows:

	September 30, 2018			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS):				
Mortgage-backed securities	$6,475	$ 7	$ (255)	$6,227
State and political securities	75,859	68	(1,264)	74,663
Other debt securities	49,942	2	(1,929)	48,015
Total debt securities	$132,276	$ 77	$ (3,448)	$128,905
Investment equity securities:				
Financial institution equity securities	$328	$ 362	$ —	$690
Other equity securities	1,300	—	(88)	1,212
Investment equity securities	$1,628	$ 362	$ (88)	$1,902

Trading:				
Other equity securities	$49	$ —	$ (4)	$45

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	December 31, 2017			
(In Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale (AFS):				
Mortgage-backed securities	$4,273	$ 51	$ (111)	$4,213
State and political securities	56,295	411	(198)	56,508
Other debt securities	48,806	180	(1,080)	47,906
Total debt securities	$109,374	$ 642	$ (1,389)	$108,627
Investment equity securities:				
Financial institution equity securities	$537	$ 728	$ —	$1,265
Other equity securities	1,300	—	(49)	1,251
Investment equity securities	$1,837	$ 728	$ (49)	$2,516
Trading:				
Financial institution equity securities	$20	$ —	$ —	$20
Other equity securities	192	2	(24)	170
Trading investment equity securities	$212	$ 2	$ (24)	$190

Total net trading gains of $14,000 and $12,000 for the three and nine months ended September 30, 2018 along with net trading losses of $4,000 and $2,000 for the three and nine months ended September 30, 2017 are included in the Consolidated Statement of Income.

The following tables show the Company’s gross unrealized losses and fair value, aggregated by investment category and length of time, that the individual debt securities have been in a continuous unrealized loss position, at September 30, 2018 and December 31, 2017.

	September 30, 2018					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale (AFS):						
Mortgage-backed securities	$3,084	$ (42)	$ 2,943	$ (213)	$6,027	$ (255)
State and political securities	47,314	(774)	11,311	(490)	58,625	(1,264)
Other debt securities	18,225	(436)	27,779	(1,493)	46,004	(1,929)
Total debt securities	$68,623	$ (1,252)	$ 42,033	$ (2,196)	$110,656	$ (3,448)

	December 31, 2017					
	Less than Twelve Months		Twelve Months or Greater		Total	
(In Thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Available for sale (AFS):						
Mortgage-backed securities	$981	$ (12)	$ 2,276	$ (99)	$3,257	$ (111)
State and political securities	15,691	(104)	3,018	(94)	18,709	(198)

Other debt securities	7,512	(148)	28,517	(932)	36,029	(1,080)
Total debt securities	$24,184	$ (264)	$ 33,811	$ (1,125)	$57,995	$ (1,389)
Other equity securities	$1,251	$ (49)	$ —	$ —	$1,251	$ (49)

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At September 30, 2018, there were a total of 71 securities in a continuous unrealized loss position for less than twelve months and 42 individual securities that were in a continuous unrealized loss position for twelve months or greater.

The Company reviews its position quarterly and has determined that, at September 30, 2018, the declines outlined in the above table represent temporary declines and the Company does not intend to sell and does not believe it will be required to sell these securities before recovery of their cost basis, which may be at maturity. The Company has concluded that the unrealized losses disclosed above are not other than temporary but are the result of interest rate changes, sector credit ratings changes, or company-specific ratings changes that are not expected to result in the non-collection of principal and interest during the period.

The amortized cost and fair value of debt securities at September 30, 2018, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities since borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(In Thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 3,972	$ 3,967
Due after one year to five years	45,584	44,327
Due after five years to ten years	64,109	62,345
Due after ten years	18,611	18,266
Total	$ 132,276	$ 128,905

Total gross proceeds from sales of debt securities available for sale for the three and nine months ended September 30, 2018 were $10,450,000 and $14,528,000, a decrease from the 2017 totals of $6,478,000 and $15,443,000.

The following table represents gross realized gains and losses within the available for sale portfolio:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2018	2017	2018	2017
Available for sale (AFS):				
Gross realized gains:				
Mortgage-backed securities	$ 22	$ —	$ 27	$ 69
State and political securities	—	313	19	343
Other debt securities	3	5	3	5
Total gross realized gains	$ 25	$ 318	$ 49	$ 417
Gross realized losses:				
State and political securities	$ 47	$ 16	$ 56	$ 17
Other debt securities	—	—	10	51
Total gross realized losses	$ 47	$ 16	$ 66	$ 68
Investment equity securities:				
Gross realized gains:				
Financial institution equity securities	$ —	$ —	$ —	$ 288
Gross realized losses:				
Other equity securities	$ —	$ —	$ —	$ 150

There were no impairment charges included in gross realized losses for the three and nine months ended September 30, 2018 and 2017, respectively.

Investment securities with a carrying value of approximately $80,035,000 and $90,286,000 at September 30, 2018 and December 31, 2017, respectively, were pledged to secure certain deposits, repurchase agreements, and for other purposes as required by law.

At September 30, 2018 and December 31, 2017, we had $1,902,000 and $2,516,000, respectively, in equity securities recorded at fair value. Prior to January 1, 2018, equity securities were stated at fair value with unrealized gains and losses reported as a separate component of AOCI, net of tax. At December 31, 2017, net unrealized gains of $679,000 had been recognized in AOCI. On January

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1, 2018, these unrealized gains and losses were reclassified out of AOCI and into retained earnings with subsequent changes in fair value being recognized in net equity securities gains (losses). The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during the three and nine months ended September 30, 2018:

(In Thousands)	Three Months Ended September 30, 2018	Nine months ended September 30, 2018
Net gains (losses) recognized in equity securities during the period	$ (16)	$ (44)
Less: Net gains (losses) realized on the sale of equity securities during the period	5	13
Unrealized gains (losses) recognized in equity securities held at reporting date	$ (21)	$ (57)

Net gains and losses on trading account securities are as follows for the three and nine months ended September 30, 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In Thousands)	2018	2017	2018	2017
Net gains (losses) on sale transactions	$ 9	$ (2)	$ 17	$ 7
Net mark-to-market gains (losses)	5	(2)	(5)	(9)
Net gain (loss) on trading account securities	$ 14	$ (4)	$ 12	$ (2)

Note 6. Loans

Management segments the Banks' loan portfolio to a level that enables risk and performance monitoring according to similar risk characteristics. Loans are segmented based on the underlying collateral characteristics. Categories include commercial, financial, and agricultural, real estate, and installment loans. Real estate loans are further segmented into three categories: residential, commercial, and construction, while installment loans are classified as either consumer automobile loans or other installment loans.

The following table presents the related aging categories of loans, by segment, as of September 30, 2018 and December 31, 2017:

	September 30, 2018		
	Past Due 30 To 89	Past Due 90 Days Or More	Non-

(In Thousands)	Current	Days	& Still Accruing	Accrual	Total
Commercial, financial, and agricultural	$185,951	$ 305	$ —	$ 1,244	$187,500
Real estate mortgage:					
Residential	611,989	3,663	442	2,080	618,174
Commercial	365,334	2,427	—	4,815	372,576
Construction	39,831	149	12	—	39,992
Consumer automobile loans	123,943	499	58	88	124,588
Other consumer installment loans	25,012	511	—	—	25,523
	1,352,060	$ 7,554	$ 512	$ 8,227	1,368,353
Net deferred loan fees and discounts	752				752
Allowance for loan losses	(13,343)				(13,343)
Loans, net	$1,339,469				$1,355,762

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	December 31, 2017				
(In Thousands)	Current	Past Due 30 To 89 Days	Past Due 90 Days Or More & Still Accruing	Non-Accrual	Total
Commercial, financial, and agricultural	$178,022	$ 663	$ 86	$ 114	$178,885
Real estate mortgage:					
Residential	588,278	6,853	318	1,628	597,077
Commercial	325,148	1,823	80	4,968	332,019
Construction	31,547	116	20	—	31,683
Consumer automobile loans	79,595	87	—	32	79,714
Other consumer installment loans	26,740	202	5	17	26,964
	1,229,330	$ 9,744	$ 509	$ 6,759	1,246,342
Net deferred loan fees and discounts	272				272
Allowance for loan losses	(12,858)				(12,858)
Loans, net	$1,216,744				$1,233,756

The following table presents interest income the Banks would have recorded if interest had been recorded based on the original loan agreement terms and rate of interest for non-accrual loans and interest income recognized on a cash basis for non-accrual loans for the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30,			
	2018		2017	
(In Thousands)	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis
Commercial, financial, and agricultural	$ 61	$ 51	$ 8	$ 2
Real estate mortgage:				
Residential	21	31	29	30
Commercial	33	4	90	23
Construction	—	—	—	—
Consumer automobile loans	—	—	—	—
Other consumer installment loans	2	1	1	1
	$ 117	$ 87	$ 128	$ 56

	Nine Months Ended September 30,			
	2018		2017	
(In Thousands)	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis	Interest Income That Would Have Been Recorded Based on Original Term and Rate	Interest Income Recorded on a Cash Basis
Commercial, financial, and agricultural	$ 65	$ 52	$ 21	$ 8
Real estate mortgage:				
Residential	89	65	123	81
Commercial	171	43	322	42
Construction	—	—	—	—
Consumer automobile loans	—	—	—	—
Other consumer installment loans	3	2	3	2
	$ 328	$ 162	$ 469	$ 133

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Impaired Loans

Impaired loans are loans for which it is probable the Banks will not be able to collect all amounts due according to the contractual terms of the loan agreement. The Banks evaluate such loans for impairment individually and do not aggregate loans by major risk classifications. The definition of "impaired loans" is not the same as the definition of "non-accrual loans," although the two categories overlap. The Banks may choose to place a loan on non-accrual status due to payment delinquency or uncertain collectability, while not classifying the loan as impaired. Factors considered by management in determining impairment include payment status and collateral value. The amount of impairment for these types of loans is determined by the difference between the present value of the expected cash flows related to the loan, using the original interest rate, and its recorded value, or as a practical expedient in the case of collateralized loans, the difference between the fair value of the collateral and the recorded amount of the loan. When foreclosure is probable, impairment is measured based on the fair value of the collateral.

Management evaluates individual loans in all of the commercial segments for possible impairment if the loan is greater than $100,000 and if the loan is either on non-accrual status or has a risk rating of substandard. Management may also elect to measure an individual loan for impairment if less than $100,000 on a case-by-case basis.

Mortgage loans on one-to-four family properties and all consumer loans are large groups of smaller-balance homogeneous loans and are measured for impairment collectively. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. Management determines the significance of payment delays on a case-by-case basis taking into consideration all circumstances surrounding the loan and the borrower including the length of the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed. Interest income for impaired loans is recorded consistent with the Banks' policy on non-accrual loans.

The following table presents the recorded investment, unpaid principal balance, and related allowance of impaired loans by segment as of September 30, 2018 and December 31, 2017:

	September 30, 2018		
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial, financial, and agricultural	$1,028	$ 1,028	$ —
Real estate mortgage:			
Residential	1,614	1,614	—
Commercial	2,117	2,117	—
Installment loans to individuals	—	—	—
	4,759	4,759	—
With an allowance recorded:			
Commercial, financial, and agricultural	75	75	50
Real estate mortgage:			
Residential	1,698	1,747	121
Commercial	6,205	6,205	1,187
Installment loans to individuals	40	40	20
	8,018	8,067	1,378
Total:			
Commercial, financial, and agricultural	1,103	1,103	50
Real estate mortgage:			
Residential	3,312	3,361	121

Commercial	8,322	8,322	1,187
Installment loans to individuals	40	40	20
	$12,777	$ 12,826	$ 1,378

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	December 31, 2017		
(In Thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Commercial, financial, and agricultural	$1,033	$ 1,033	$ —
Real estate mortgage:			
Residential	1,428	1,428	—
Commercial	1,465	1,465	—
	3,926	3,926	—
With an allowance recorded:			
Commercial, financial, and agricultural	235	235	96
Real estate mortgage:			
Residential	2,304	2,353	367
Commercial	7,981	8,031	1,721
	10,520	10,619	2,184
Total:			